

ifo Business Climate Germany
Results of the ifo Business Survey for May 2021

ifo Business Climate Index Rises Steeply

Munich, May 25, 2021 – Sentiment among German managers has improved considerably. The ifo Business Climate Index rose from 96.6 points¹ in April to 99.2 points in May. This is its highest value since May 2019. Companies were more satisfied with their current business situation. They are also more optimistic regarding the coming months. The German economy is picking up speed.

In *manufacturing*, the index rose slightly. Companies were once again markedly more satisfied with their current business. Their expectations took a major knock, but remained positive. Order books grew, and companies expect prices to increase.

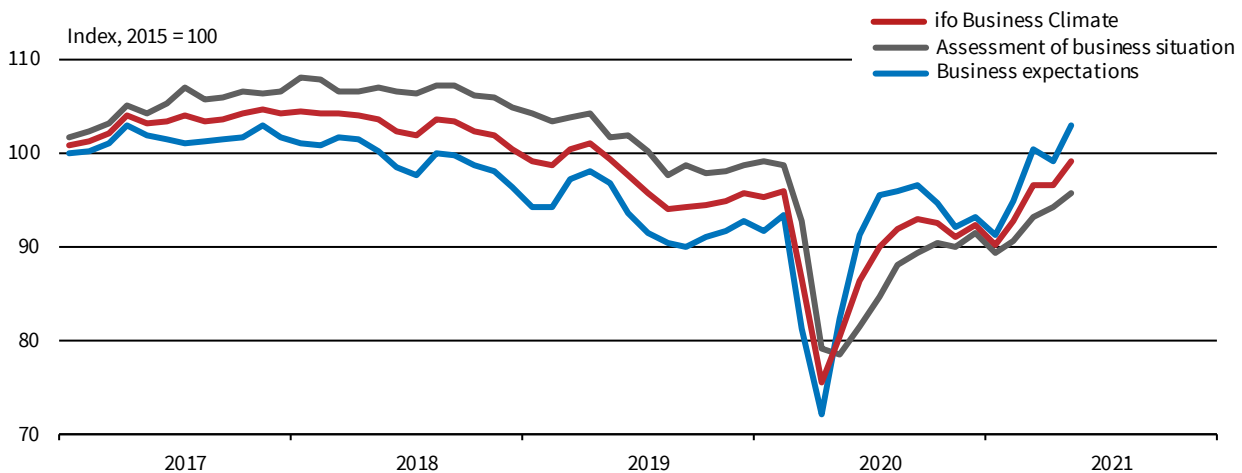
In the *service sector*, the Business Climate Index climbed to its highest value since February 2020. This was a result of much more optimistic expectations. Assessments of the current situation also improved, with optimism returning to hospitality and tourism in particular.

The index jumped upward in *trade*, too. Businesses were more satisfied with their current situation. Cautious optimism also returned in their expectations. While wholesalers continue to benefit from positive developments in manufacturing, retailers are hoping the economy will open up further.

In *construction*, the business climate brightened. Companies' assessments of the current situation improved somewhat. Expectations were also less pessimistic. However, material shortages became an even more pressing concern.

Clemens Fuest
President of the ifo Institute

ifo Business Climate Germany^a Seasonally adjusted



^a Manufacturing, service sector, trade, and construction.
Source: ifo Business Survey, May 2021.

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ifo Business Climate Germany (Index, 2015 = 100, seasonally adjusted)

Month/year	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21
Climate	80.4	86.3	90.0	91.9	92.9	92.6	91.1	92.3	90.2	92.7	96.7	96.6	99.2
Situation	78.5	81.5	84.7	88.1	89.4	90.5	90.1	91.5	89.3	90.7	93.1	94.2	95.7
Expectations	82.3	91.3	95.6	96.0	96.5	94.7	92.1	93.2	91.2	94.8	100.4	99.2	102.9

Source: ifo Business Survey

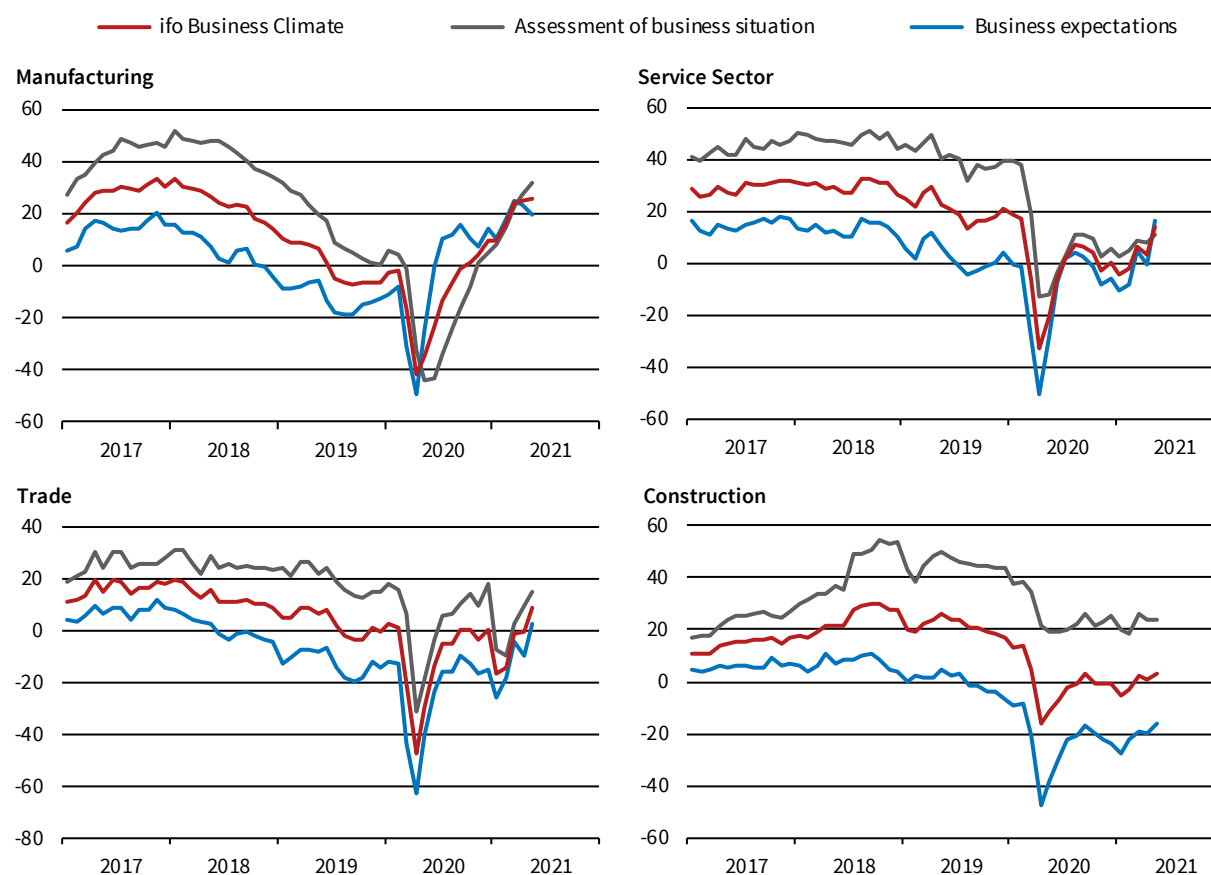
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For long time-series in Excel format, please see <https://www.ifo.de/en/umfragen/time-series>.

¹ Seasonally adjusted

ifo Business Climate, Business Situation, and Expectations by Sector

Balances, seasonally adjusted



Source: ifo Business Survey, May 2021.

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ifo Business Climate Germany by Sector (Balances, seasonally adjusted)

Month/year	05/20	06/20	07/20	08/20	09/20	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21
Germany	-24.3	-11.4	-3.3	1.0	3.0	2.3	-0.8	1.8	-2.7	2.7	11.3	11.3	16.9
Manufacturing	-34.6	-23.2	-13.3	-6.8	-1.0	1.2	4.2	9.4	9.2	16.5	24.0	25.1	25.7
Service sector	-20.5	-5.9	1.7	7.3	6.6	3.9	-2.7	-0.2	-4.3	-2.1	6.6	3.5	13.7
Trade	-30.3	-14.1	-5.3	-5.1	0.1	-0.2	-3.9	0.4	-17.1	-14.5	-1.3	-0.5	8.4
Construction	-11.8	-6.6	-2.1	-0.4	3.3	-0.4	-1.0	-0.8	-5.3	-2.9	2.5	0.7	2.8

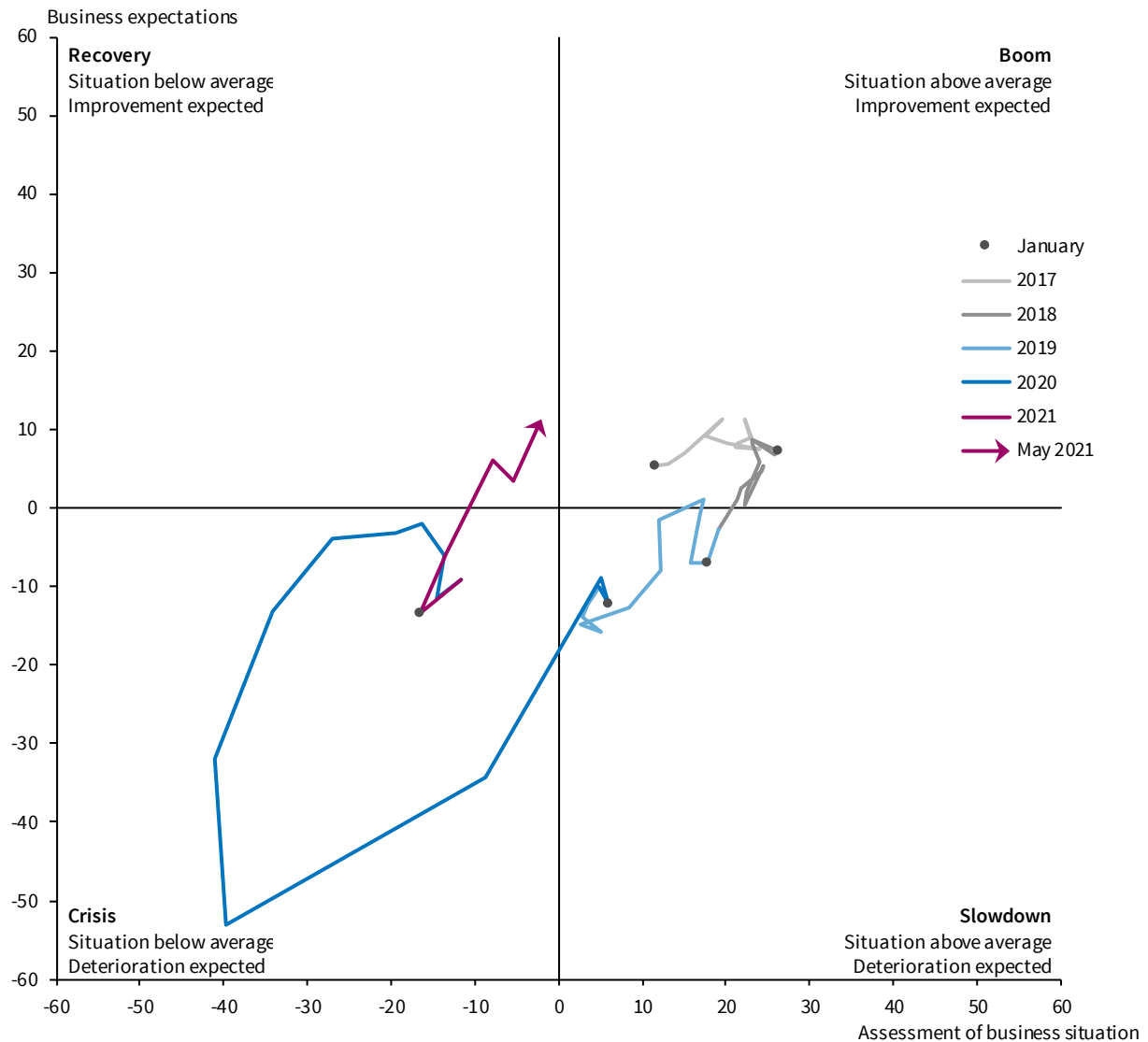
Source: ifo Business Survey

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The ifo Business Climate is based on approx. 9,000 monthly responses from businesses in manufacturing, the service sector, trade, and construction. Companies are asked to give their assessments of the **current business situation** and their **expectations** for the next six months. They can describe their situation as “good,” “satisfactory,” or “poor” and their business expectations for the next six months as “more favorable,” “unchanged,” or “less favorable.” The **balance value** of the current business situation is the difference in the percentage shares of the responses “good” and “poor”; the balance value of expectations is the difference in the percentage shares of the responses “more favorable” and “less favorable.” The **business climate** is a transformed mean of the balances of the business situation and the expectations. To calculate the **index values**, the transformed balances are all normalized to the average for the year 2015.

ifo Business Cycle Clock Germany^a

Balances adjusted for mean value, seasonally adjusted



^a Manufacturing, service sector, trade, and construction.

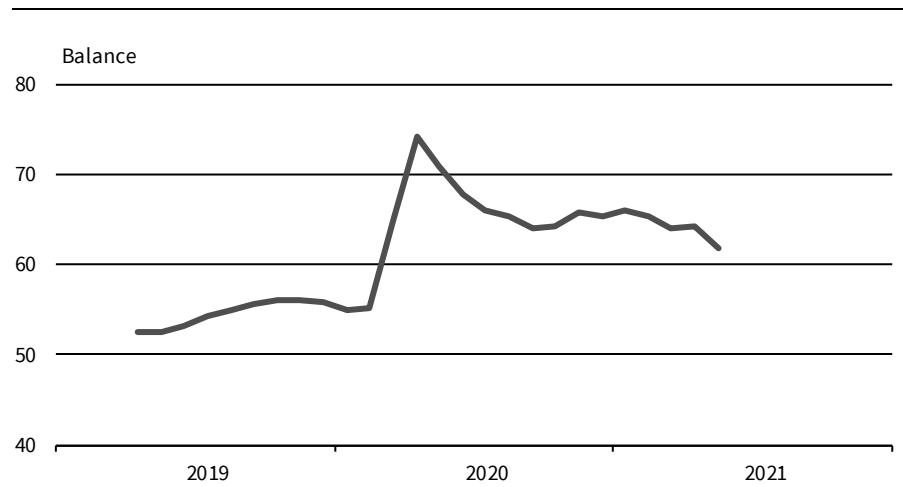
Source: ifo Business Survey, May 2021.

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The ifo Business Cycle Clock shows the cyclical relationship between the current business situation and business expectations in a four-quadrant diagram. In this diagram, economic activity – shown on a graph plotting the current situation against expectations – passes through quadrants labeled with the different phases of activity, namely recovery, boom, slowdown, and crisis; provided that the expectations indicator sufficiently precedes the current business situation indicator. If survey participants' assessments of the current business situation and their business expectations are both below average on balance, economic activity is plotted in the "crisis" quadrant. If the expectations indicator is above average (with an improving but below average business situation on balance), economic activity moves to the "recovery" quadrant. If the business situation and expectations are both above average on balance, economic activity appears in the "boom" quadrant. If, however, the expectations indicator falls below average (with a deteriorating but above average business situation on balance), economic activity slips into the "slowdown" quadrant.

ifo Business Uncertainty Germany^a

Original values



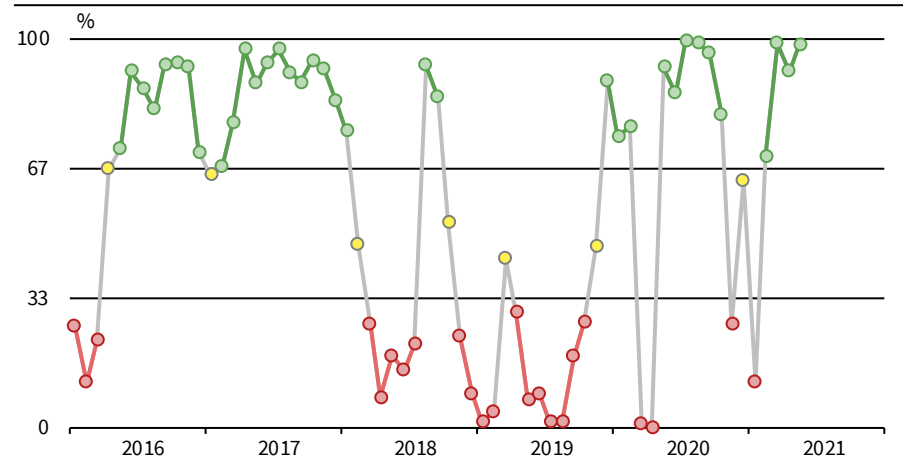
^a Manufacturing, service sector, trade, and construction.
 Source: ifo Business Survey, May 2021.

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The ifo Business Uncertainty measures how difficult it is for managers to predict the development of their company's business situation over the next six months. The measure is calculated based on the weighted fractions of companies that fall into the answer options "easy," "fairly easy," "fairly difficult," and "difficult" of a corresponding question in the ifo Business Survey. To this end, the answer categories are mapped onto a numerical scale with equally spaced intervals. Theoretically, the ifo Business Uncertainty can range from 0 to 100. Higher values indicate higher uncertainty: the future business situation is more difficult to predict.

ifo Business Cycle Traffic Lights Germany

Monthly probability for economic expansion^a



^a Green = high, yellow = medium, red = low. Calculated on the basis of monthly movements in the ifo Business Climate Index Germany.

Source: ifo Business Survey, May 2021.

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Monthly movements in the ifo Business Climate Index Germany can be translated into probabilities for the two cyclical regimes expansion and contraction using a Markov switching model. The ifo Business Cycle Traffic Lights show the monthly regime probabilities for the expansion phase. Probabilities exceeding the 66 percent mark signal an economic expansion (green lights); probabilities under the 33 percent mark signal a contraction (red lights); probabilities in the range in between those two marks signal indifference (yellow lights). This indifference can be interpreted as a buffer zone between the regimes expansion and contraction, in which particularly great uncertainty exists about the state of the economy.